

[COMMITTEE PRINT]

ENERGY PROGRAM

4

**PART TWO:
SUMMARY OF STATEMENT SUBMITTED
FOR THE RECORD
ON THE
ADMINISTRATION'S ENERGY PROPOSALS**

PREPARED FOR THE
COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES
BY THE STAFFS OF THE
JOINT COMMITTEE ON TAXATION
AND THE
COMMITTEE ON WAYS AND MEANS



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INTRODUCTION

This is the fourth in a series of pamphlets prepared for use by the Committee on Ways and Means during its consideration of the Administration's energy program.

This pamphlet (Part Two) presents a summary of the statements submitted for the record to the Ways and Means Committee on the tax aspects of the Administration's energy program. The summary includes statements received by the Committee as of June 8, 1977. (A summary of the testimony of witnesses at the public hearings was presented in Part One of pamphlet No. 4.)

The summary of statements is organized by topics, and covers the comments on the various Administration energy tax proposals, plus comments on the general energy situation and other suggestions related to the energy program. The summary was prepared with the assistance of Carol Hill of the staff of the Committee on Ways and Means.

I. Overview of the Energy Situation and General Comments

National Business Aircraft Association, Inc., John H. Winant, President

Recommends that government regulations should be used only during periods of extreme shortages and at other times the market forces of competitive enterprise should operate unrestricted. Suggests that development of adequate resources should have equal priority with conservation.

National Asphalt Pavement Association

Believes that an orderly price decontrol and free market approach will achieve our energy goals more efficiently than a bureaucratic approach.

National Cannery Association

Feels that the energy bill would require substantial Federal costs in manpower and also increase the administrative costs substantially of all industries involved. Supports deregulation as stimulating conservation while not being as administratively costly. Objects to the tax and rebate system as inflexible.

American Council for Capital Formation, Richard W. Rahn

Recognizes the need for a national policy to encourage energy conservation but feels it can be accomplished more effectively through the use of prices rather than taxes. Advocates a phase-out of existing price controls to stimulate greater investment and to provide an alternative to coal conversion by making the new U.S. high cost or marginal natural gas fields economically worthwhile.

Southern California Edison Company

Calls for the formulation of a sound and comprehensive national energy policy but feels this can best be achieved by a reduction in Federal regulation and taxation.

Donald E. McMillen, Professional Engineer (Texas)

Believes the only effective method of balancing supply and demand of energy and assuring adequate supplies for the future is to make use of the normal economic forces of the free market economy. Recommends elimination of price controls and opposes the tax rebate system as an administrative nightmare.

Raphael G. Kazmann, Professor of Civil Engineering, Louisiana State University

Contentends that raising taxes on energy will not produce more production. Stresses the need for more investment money for the oil and gas industry, which can be achieved by removing all price controls so marginal sources become attractive investments. By keeping the price below market price the proposed legislation will discourage invest-

ment. Feels an understanding that the energy situation is a permanent condition might be achieved through the abolition of price controls. Maintains that with removal of price controls, people would have sufficient incentive to conserve, and the other tax provisions (such as the auto tax, the gas tax, crude oil tax, industrial users tax, and the various tax credits for energy conservation expenditures) will not be needed.

Wallace E. Tyner and Arthur W. Wright, Purdue University (Taxation with Representation)

Suggests the objectives of increased national independence and equitable distribution of the gains and losses in wealth resulting from higher energy prices could be better achieved by the removal of all energy-policy uses of the tax system, by developing optimal subsidies for energy and stating them clearly and through a windfall profits tax on existing production and subsidies to low-income consumers.

Edward F. Renshaw, Professor of Economics, State University of New York at Albany (Taxation With Representation)

Believes the gravity of the energy supply situation makes it imperative to go beyond the proposals and consider a quota on imported oil. Feels that the quota could generate enough of a shortage at the gas pump to make all motorists conservation-oriented.

Alabama Chamber of Commerce, James J. Britton, Executive Vice President

Hopes every effort will be made to explore possibilities of producing energy rather than taxing it.

Kansas Association of Commerce and Industry, Jack A. Pearson, Executive Director

Supports the testimony of Council of State Chambers of Commerce (George S. Koch).

Ohio Chamber of Commerce, Norman H. Baker, Executive Vice-President

Endorses the statement of Mr. George S. Koch for the Council of State Chambers of Commerce on the energy proposals.

John F. Due, Professor of Economics, University of Illinois (Taxation With Representation)

Suggests that the negative approaches of no action and total de-control are impractical. Believes that inaction will aggravate the crisis and removing controls will not necessarily lessen dependence on foreign oil, will result in a large economic gain to the producers and ignores the concept of equity among individuals.

*Public Citizen's Tax Reform Research Group, Robert M. Brandon and William Pietz (May 18)**

Indicates that the basic energy problem is that we use too much energy, and that the basic nonrenewable sources we have relied on are fast running out. Maintain that the only truly long-term solution is to replace nonrenewable sources with renewable ones. Feel that more

*Inadvertently left out of Part One of the Summary.

emphasis should be placed on solar energy. Contend that the Administration proposals are deficient with respect to solar energy.

In the short run, state that we must conserve energy as much as is possible, which is much less expensive than the cost of oil or gas or synthetic fuels. Assert that if conservation standards were mandated rather than encouraged through tax incentives, the economy would save more and would result in a more efficient use of resources, and at the same time prevent further complicating of the tax code.

II. Transportation Conservation Tax Proposals

A. Auto fuel inefficiency tax and rebate

Hon. Lawrence Coughlin, Member of Congress (Pennsylvania)

Supports the proposed graduated excise tax and rebate program as a fair and equitable approach to reducing consumption. Notes that the proposal is similar to his bill, H.R. 820. Feels the present fleet average method is insufficient because there is no prohibition against passing the fines along to all the company's consumers. Contrarily, the gas guzzler program is a voluntary election and can be avoided by choosing a different car. Points out that the intermediate class of 1977 autos met the mpg standard. Recommends denying rebates for foreign cars to prevent harm to the U.S. auto industry but including imports under the guzzler taxes as long as this does not violate GATT.

Hon. Harold L. Volkmer, Member of Congress (Missouri)

Supports excise tax and incentive rebate but would prefer mpg figures at a higher rate, with an increased excise tax and a corresponding increased rebate.

Hon. James Abdnor, Member of Congress (South Dakota)

Believes tax is unfair to middle-income families requiring large autos for their transportation needs and also discriminates against the domestic manufacturer who produces varying car sizes.

National Association of Manufacturers

Feels the desirable objective of lowering gasoline consumption by the driving public can be achieved more directly through standards than through taxes.

Machinery and Allied Products Institute, Charles Stewart, President

Objects to the tax as unnecessary, because the EPCA standards have set sufficient controls. Opposes eliminating fleet averaging because this would eliminate all choice with respect to less efficient cars no matter what the reasons.

National Federation of Independent Business, James D. "Mike" McKevitt, Washington Counsel

Opposes fuel inefficiency tax on light-duty trucks or vans because many businesses are dependent on them for specific functions. Prefers establishment of fuel efficiency standards. Suggests a 50-percent tax credit on one automobile every two years for persons principally using the vehicle in commerce.

Common Cause, David Cohen, President

Supports gas guzzler tax as a means of achieving immediately what will take years using mileage standards.

Edward F. Renshaw, Professor of Economics and Natural Resources, State University of New York at Albany (Taxation with Representation)

Proposes a "negative expenditure tax" on autos, which would involve a tax on inefficient cars along with a rebate on efficient cars. The amount of tax would be measured by the value of the extra gasoline an auto with poorer gas mileage could be expected to consume over its expected life when compared to cars meeting the fuel standards. The size of the rebate would depend on the degree to which cars with better mileage exceeded the fuel economy standards.

States that such a tax would help keep the demand for large cars in line with national goals and also would be more progressive in character than an excise tax on gasoline.

Wallace E. Tyner and Arthur W. Wright, Purdue University (Taxation With Representation)

Consider the proposal as redundant if the current standards and penalties are enforced.

Donald E. McMillen, Professional Engineer, Spring, Texas

Feels the proposed tax is not required; that freeing the price of petroleum products might be more effective. Also believes administration of the tax and rebates will cause complications and inequities outweighing any possible gains.

David M. Brown, M.D., Golden Valley, Minnesota

Commends proposal as resulting in both fuel economy and behavior modification if the magnitude of the tax is sufficiently high and the rebate is made retroactive to May 1, 1977 to encourage immediate change.

Mrs. Paige K. Moore, Houston, Texas

Opposes graduated tax because goal could be achieved by deregulating the cost of fuel thereby deterring purchase of low-mileage vehicles.

John F. Due, Professor of Economics, University of Illinois (Taxation With Representation)

Considers the argument that the tax will eliminate the family car to be unfounded. Points out that some standard-sized cars are now above the 1977 mpg figures. Feels that mandatory standards approach does have limitation because it does nothing to discourage use of existing low-mileage cars.

*Public Citizen's Tax Reform Research Group, Robert M. Brandon and William Pietz (May 18)**

Express support for the tax rebate proposal for autos. Indicate that since the payment of the tax would be discretionary in that a person does not have to purchase such an auto, the lower income families would not necessarily be burdened as would be a gasoline tax. Note

*Inadvertently left out of Part One of the Summary.

that one problem with the tax rebate proposal is that it may be a subsidy to imports. Suggest that the "two-pool" concept for dealing with imports has merit.

B. Standby gasoline tax and rebate

Hon. Harold L. Volkmer, Member of Congress (Missouri)

Opposes tax because he does not believe it would lead to fuel conservation. Would only support increase in Federal tax if funds were for construction and replacement of State and local bridges.

Hon. James Abdnor, Member of Congress (South Dakota)

Feels the gasoline tax is inequitable to the rural populace which has no choice but to drive. Should the tax be included, favors an amendment entitling each State to continue its own taxation by a provision that any State increase would correspondingly reduce the Federal tax. Indicates that the energy conservation incentive of higher taxes would continue, but the State would share in this so less damage would be done to its highway programs.

Hon. James R. Thompson, Governor of Illinois

Asserts that since motor fuel taxes are a vital source of State revenues, the standby gas tax will result in severe financial hardships to State economies. Proposes a Federal tax return to the States as compensation. Suggests funds be derived from resources generated by the program, be distributed on the basis of each State's share of 1973 gas tax revenues, and that 20 percent of the amount be earmarked for local governments.

National Milk Producers Federation, Patrick B. Healy

Supports the exemption of agricultural uses from the standby gasoline tax because the margin of fuel savings is limited and the cost of the tax would merely be an additional tax to the consumer. Urges extending the rebate to farm-to-market hauling as well.

Machinery and Allied Products Institute, Charles Stewart, President

Dislikes tax because demand for many is inelastic and they have no choice but to pay more. Seems to fall upon just and unjust alike and does less efficiently and without adequate incentive to suppliers what the market could do without government intervention.

Motor Vehicle Manufacturers Association of the United States, Inc.

Favors using the price mechanism to promote conservation and feels the tax would be a first step toward pricing gasoline at its true resource value, but believes that until decontrol occurs, the targets and taxes are premature.

Common Cause, David Cohen, President

Feels immediate effect of tax and the public's recognition that much driving is discretionary, and there is room for belt-tightening are ample reasons to support the tax.

The Associated General Contractors of America

Suggests either exempting from the tax construction contractors who have entered into fixed-price contracts prior to the imposition of such taxes or rebating increased costs to them, because they had no

means of knowing of the Government's action when they made the contract.

National Federation of Independent Business, James D. "Mike" McKevitt, Washington Counsel

Opposes gasoline tax as injurious to business because consumption is inelastic.

James A. Coppock, Coordinator, Department of Business Administration and Economics, Carson-Newman College, Jefferson City, Tenn.

Proposes a motor fuel tax which will vary according to the level of conservation. States that it requires a long-term consumption goal, quarterly consumption reports and adjustment of the tax accordingly. Would give each fuel product its own plan and tax formula.

Edward F. Renshaw, Professor of Economics, State University of New York at Albany (Taxation With Representation)

Advocates tax/rebate system as superior to rationing, but suggests increasing fairness by making rebate larger for farmers and those who must drive long distances to work.

Wallace E. Tyner and Arthur W. Wright, Purdue University (Taxation With Representation)

Doubt individuals will modify their gasoline use without a clear, definitely stated target price to be approached in stages.

John F. Due, Professor of Economics, University of Illinois (Taxation With Representation)

Believes contingency aspect is not likely to succeed as an incentive to drive less, but as a final measure if all else fails, it has merit. Suggests immediate motor fuel tax increase without refunds to finance substitute transportation methods as a better proposal. However, feels that even though price and tax mechanism may not work perfectly it is much superior to rationing.

David M. Brown, M.D., Golden Valley, Minnesota

Feels direct tax is mandatory and a tax credit to avoid penalizing those on marginal incomes is preferable to a tax rebate. Cautions against offering exclusionary provisions which may include voluntarily chosen life-styles which aren't critically necessary.

Francis E. Wilson, D.D., Elton, Michigan

Opposes tax as severely affecting lower-income individuals, as inflationary and lacking any development incentive. Suggests rationing as a fairer and more effective means of achieving conservation.

Mrs. Paige K. Moore, Houston, Texas

Opposes tax and feels it does nothing to produce more energy merely redistributes capital from private industry into the Federal coffers to be rebated to the people.

C. Other Vehicle-Related Tax Items

Hon. Harold L. Volkmer, Member of Congress (Missouri)

Strongly supports development of electric car—especially for commuter traffic, and feels tax incentives should be made available to private industry to further such development.

National Business Aircraft Association, Inc., John H. Winant, President

Asks for equitable treatment of business aviation and in that regard does not feel the additional 4¢ per gallon tax is necessary. Maintains that business aviation has already achieved significant conservation and a tax would not motivate further conservation where it is impossible.

General Aviation Manufacturers Association, Edward W. Stimpson, President

Urges the committee consider the proposed 4-cent per gallon tax on aviation fuel in context with the broad tax program and the conservation enhancement taxes placed on other modes of transportation. Asks for fair, equitable and non-discriminatory treatment for the general aviation industry in view of the importance it plays in the national transportation network.

Aircraft Owners and Pilots Association, John L. Baker, President

Contents it is not appropriate to impose the additional 4 cents per gallon tax on general aviation because Secretary Adams admitted it was not being justified on the basis of energy efficiency.

Motor Vehicle Manufacturers Association of the United States, Inc.

Supports repeal of 10-percent excise tax on intercity buses to make more capital available and stimulate demand for more fuel efficient diesel engines.

American Public Transit Association

Supports repeal of the excise tax on all buses as a positive means to encourage public transportation use.

Also proposes an amendment to exempt privately-owned local transit bus systems from Federal excise taxes on fuel, lubricating oil, tires and replacement parts. Indicates that the revenues are insignificant amounts to the Federal Government but are an added cost burden to urban transit systems which should be encouraged as important energy conserving bodies.

Lezlie Corp., (Portland, Maine), Michael R. Romano, President

Contents that a considerable savings could be obtained by repealing the 8-percent parts tax on devices which reduce air drag and increase fuel mileage. Suggests substituting an investment tax credit for their purchase and use.

Sebring Vanguard, Inc., Robert M. Stone, II, Marketing Manager

Supports H.R. 5500 as an inexpensive way to get many electric cars on the road quickly, since the Government "pays" the tax credit only after cars are built and sold. Feels that by making electric cars more affordable, thereby increasing demand, more companies may be encouraged to get into the market.

Michael D. Intriligator, Professor of Economics, UCLA

Proposes a Federal tax on automatic registration related to energy use, such as proportional to horsepower rating, as an alternative taxing mechanism.

David M. Brown, M.D., Golden Valley, Minnesota

Believes excise tax preferences for general aviation and motor boat fuel must be eliminated because these uses are nonessential, luxury items.

Supports removal of the 10-percent excise tax on intercity buses to encourage use of that alternative mode of transportation.

III. Residential Conservation Tax Incentives

A. Residential energy credit

United States League of Saving Associations, Arthur B. Edgeworth, Director

Supports the proposed direct income tax credits to homeowners who improve the energy efficiency of their homes. Suggests that incentives for "weatherization" improvements be extended to multi-family units.

National Savings and Loan League

Suggests that tax incentives do have limitations; specifically a significant expense must be incurred prior to the receipt of any tax benefit, and the need for retrofitting is immediate. Responding by offering energy conservation loans at rates below existing home improvement rates. Supports the credit for weatherization.

National Home Improvement Council, Inc.

Favors incentive as a real impetus to encourage additional expenses necessary to realize a substantial savings in energy utilization.

F. T. Harrington, Bloomfield Hills, Michigan

Requests consideration be given to making the tax rebate incentives for insulation retroactive to the time of the 1973 OPEC embargo. This would serve as a reward to those who relied upon Congress' plans to provide tax incentives and have already insulated their homes. Suggests that Public Law 91-479 sets a precedent for such retroactive provisions.

Davenport Insulation, Inc., C. V. Davenport, President

Warns of a current shortage of products for insulation with no relief in sight. Favors credits but feels there is a real urgency in enactment at an early date to prevent holding back. Suggests a useful life of 10 years and documented proof that the service was performed.

Stanley S. Surrey, Paul R. McDaniel and Joseph A. Pechman (Taxation With Representation)

Argue against enactment of a tax credit for insulation. Contend that it awards those who would insulate anyway; the low-income people who need the financial help can't afford the capital expenditure; it adds more complexity to the tax form; and it is expensive.

Steven D. Moore (Taxation With Representation)

Concludes that tax credits involve disadvantages, not present in a direct subsidy or loan program which would achieve the same goals. Indicates that fuel savings from insulation of homes should be sufficient incentive by itself.

Wallace E. Tyner and Arthur W. Wright, Purdue University (Taxation With Representation)

Suggest that proposed credits are too small to balance the investment tax credits, depreciation and depletion allowances, and other benefits available to commercially-produced energy. Feel the alternative of removing all tax subsidies to commercially-produced energy and not enacting the proposed credits would reduce the complexity of the Federal income tax system.

American Association of Nurserymen

Suggests tax incentives also be provided for the planting of trees or shrubs for energy conservation purposes. Claims that wind barrier plantings reduce winter heat loss from homes and are much more effective than solid barriers, and that vegetation can also serve as cooling devices and snow control.

Mrs. Paige K. Moore, Houston, Texas

Feels credit unnecessary because if marketplace is allowed to work without Government intervention the homeowner will take the initiative to conserve.

*Public Citizen's Tax Reform Research Group, Robert M. Brandon and William Pietz (May 18)**

Indicate that although the tax credit may have some psychological effect on consumers, the actual economic effect will be marginal for most. Contend that the proposed credit is very expensive and wasteful, and that most of the benefit would go to those who can already afford the insulation expenditures. Feel that individuals will invest in energy conservation measures in most cases because it will save them the higher cost of the energy. Suggest, if the credit is adopted, reducing the amount to allow for more direct financial aid to those who need it.

B. Residential solar credit

Hon. Harold L. Volkmer, Member of Congress (Missouri)

Supports incentive but recommends broadening its scope to include apartment owners, developers of complexes, and businesses that manufacture the devices. Also believes the incentive amount should be increased and made available to developers of new homes.

Hon. Thomas L. Judge, Governor, State of Montana, and Chairman, Western Governors' Regional Energy Policy Office

Urges enactment of credit equal to 25 percent of equipment cost up to \$2,000 which is refundable or allowed to "carry forward". Also supports 20-percent investment tax credit or 5-year depreciation schedule for solar equipment in nonresidential buildings, extension of FHA and VA loan guarantees to solar equipment and establishment of a low interest loan program to homeowners and builders.

National Savings and Loan League

Views credit as inadequate incentive relative to price of installation today. Anticipates a cost decrease as volume increases but recommends modification of the credit to reflect today's high costs. Supports greater

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incentive for retrofitting of existing homes as compared to new construction.

John F. Due, Professor of Economics, University of Illinois (Taxation With Representation)

Stresses difficulty of pre-determining success of incentives as well as the erosion of tax base. Alternatively, considers a subsidized Federal program as more effective and fairer.

Stanley S. Surrey, Paul R. McDaniel and Joseph A. Pechman (Taxation With Representation)

Advises against solar credit because many technological problems remain and funds could be more economically spent on development and research than on encouraging installation of inefficient systems. Also argues the credit is inequitable because only the wealthy who can afford the large capital outlay will be benefitted, and it will further complicate the income tax form and cost the Government unnecessary revenue loss.

*Public Citizen's Tax Reform Research Group, Robert M. Brandon and William Pietz (May 18)**

Object to the proposed solar credit as subsidizing those who can already afford the necessary capital outlays. Suggest, if the credit is adopted, that the amount be reduced to allow for more direct financial aid to those who need it.

David M. Brown, M.D., Golden Valley, Minnesota

Promotes provisions to assure safeguards in quality of hardware and installation of solar equipment.

IV. Business Conservation Tax Incentives

American Public Power Association

Opposes the extension of business energy tax credits to investor-owned electric utilities because they are collectively unable to utilize the tax relief they already have. Suggests that rebates should be the exclusive tax incentive for electric utilities and they are not entitled to any additional tax credits.

New England Electric System, R. Leigh Fitzgerald, Financial Vice President

Urges expansion of the definition of alternative energy property to include costs of modifying an existing fossil fuel boiler to a coal-fired boiler, expansion of business energy property to include property which increases the capacity of prime movers in electrical production facilities whose energy source is from other than natural gas or petroleum, and extension of the public utility ratemaking provisions of Internal Revenue Code Section 46(f) to the business energy tax credit.

National Coal Association, Carl E. Bagge, President

For the alternate energy credit provision, urges clarification to make sure that liquefaction and facilities for conversion to low-pollutant

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solid fuels is included. Recommends removal of the 500 Btu limitation for the credit allowed for converting to synthetic gas from coal.

Machinery and Allied Products Institute, Charles Stewart, President

Commends investment tax credit as an effective means to promote capital formation generally. Feels that it may be a deficient device for companies which are growing rapidly or in a loss position and alternatives must be found.

Magma Power Company, Joseph W. Aidlin, Vice President

Feels the tax incentives for geothermal development are necessary to encourage utilization of private capital to accelerate the development of this massive resource which will produce lower cost energy at a far greater long run benefit than the minimal loss in tax revenues.

Gould, Inc., Electric Motor Division, John Nils Hansen, President

Supports the proposed business energy tax credits. However, notes that it is unclear whether energy-efficient electric motors would qualify for the credit. Urges inclusion of such motors in the credit provision. Maintains that use of such motors has considerable energy saving potential—an estimated 10 to 28 percent less energy per output as compared to other motors. Suggests also, that energy credit be available only for equipment driven by “high efficiency and high power factor motors” meeting standards set by FEA.

Southern California Edison Company

Welcomes the additional credits made available but recommends liberalization of restrictive provisions in the Internal Revenue Code which would prevent utilities from using the credits. Also favors extending the carryback and carryforward provisions of investment credit and placing cash in the hands of the utilities to relieve them of the tremendous cash drain of new construction.

National Association of Manufacturers

Indicates that the proposed energy credits may increase the pace of such investments but it is unlikely that such credits would induce massive expenditures not otherwise deemed economically sound.

Feels a sweeping change in capital recovery policy is needed by substituting a short fixed write-off period for the current depreciation structure which retards the speed of replacement and modernization.

National Federation of Independent Business, James D. “Mike” McKeivitt, Washington Counsel

Suggests that small energy conserving business investments be treated similarly to incentives for residential structures.

John F. Due, Professor of Economics, University of Illinois (Taxation With Representation)

Indicates that the proposed energy credits would in large part be a tax reduction for what businesses would do anyway.

National Milk Producers Federation, Patrick B. Healy

Feels that the proposed energy credit proposal is deficient in that it does not give recognition to specific agricultural uses of solar power, and ties solar installations to buildings which in the case of wind-

power and agriculture may not always be the case. Urges the broadening of this definition to include agricultural uses of wind and solar power. Recommends a new provision giving the Secretary authority to make other, presently undeveloped energy conservation items, eligible for the business energy credit instead of requiring new legislation each time a new alternative is developed.

Owens-Illinois, Inc.

Supports tax credits for purchasers of solar equipment but in addition believes direct tax incentives should be provided for manufacturers to expand production or reduce the cost. Proposes 5-year amortization of facilities used for production of solar equipment. Also suggests providing a flat 25-percent credit for all expenditures for equipment used for the production of solar energy equipment in lieu of the existing investment credit.

In addition, recommends an exclusion from gross income for payments from the Government to encourage research on, or development or production of, solar energy equipment.

David M. Brown, M.D., Golden Valley, Minnesota

Asserts that by decreasing energy consumption the lower costs will benefit both the company and the consumer.

*Public Citizens' Tax Reform Research Group, Robert M. Brandon and William Pietz (May 18)**

Contend that the proposed credits will provide a windfall to businesses that would otherwise make such expenditures to conserve energy or to convert because of higher prices or lack of petroleum resources. State that credits for cogeneration of heat and electricity are unnecessary as such investments will be made when structural and regulatory barriers are removed.

V. Crude Oil Tax and Rebate

Hon. James Abdnor, Member of Congress (South Dakota)

Feels the proposed tax does nothing to solve the problem of decreasing supplies but does believe the price should rise to reflect its true replacement cost.

Hon. Harold L. Volkmer, Member of Congress (Missouri)

Supports the tax, but suggests the rebate be paid directly to homeowners instead of to retailers, by inclusion on the income tax form. Believes the revenues from the tax should be paid back to low-income persons.

Air Transport Association of America, Paul R. Ignatius

Contends that the impact of the equalization tax on the airlines will be substantial, in the form of an increase in the price of jet fuel, which will be passed onto the consumer in higher fares. This price increase would discourage a shift from private to public transportation and defeat the goal of the program. Suggests an exemption from, or refund of, the equalization tax on fuel used by common carriers.

*Inadvertently left out of Part One of the Summary.

Aircraft Owners and Pilots Association, John L. Baker, President

Opposes the wellhead tax as imposing an undue burden on general aviation fuel use.

Southern California Edison Company

Suggests that the equalization tax will result in a reduction in entitlement values and an initial significant impact which should subside by 1979. Emphasizes that price controls will not attain the optimum benefit of resources.

National Asphalt Pavement Association

Recommends an exemption of non-energy petroleum by-products from the tax or an expansion of the rebate system to compensate governmental purchasers for increased product costs due to the crude oil tax.

National Association of Manufacturers

Asserts that if petroleum and gas prices were free to seek their true market levels, increased production and development of other energy sources would result.

National Federation of Independent Business, James D. "Mike" McKeivitt, Washington Counsel

Opposes tax because increased costs will at least partly be absorbed by individual firm resulting in reduced production, hours, or services.

Machinery and Allied Products Institute, Charles Stewart, President

Believes the proposal moves in the right direction, but does so in the wrong way. Feels the taxes and controls are unnecessary and market pricing should be allowed to occur normally, or there should be phased price decontrol of oil and natural gas.

Motor Vehicle Manufacturers Association of the United States, Inc.

Views the taxes as inefficient and the rebates as amounting to little more than a transfer of wealth from industrial energy users to individual citizens.

The Associated General Contractors of America

Suggests either exempting construction contractors from the tax who have entered into fixed-price contracts prior to the imposition of such taxes or rebating increased costs to them, because they had no way of anticipating the Government's action. Asks that asphalt which is a non-energy derivative of petroleum with an inelastic and non-reducible consumption rate be exempted from the tax. Feels that without this exemption governments will receive much less for their construction dollar and many needed, labor-intensive public works projects may have to be cancelled.

National Canners Association

Suggests as an alternative to the equalization tax elimination of the two-tier concept and deregulation of crude oil prices. Thinks the tax equalization scheme would only add costs and complications in administration, no benefits to energy use or conservation and might be harmful to total production. Contends the heating oil rebate will not pro-

duce the conservation incentive intended and would be complicated to calculate and administer.

New England Electric System, R. Leigh Fitzgerald, Financial Vice President

Believes a rebate should be given if oil is used to generate electricity for use in electrically heated homes to equalize the rebate for crude oil used in home heating.

David M. Brown, M.D., Golden Valley, Minnesota

Supports tax as most realistic option but urges investigation of alternative methods to maximize new sources of energy development.

Wallace E. Tyner and Arthur W. Wright, Purdue University (Taxation With Representation)

Consider the tax superior to current policy, but inferior to a refiners' "excess profits" tax based on the mix of crude oil refined, which would capture windfall profits, be easier to administer and offer more flexibility.

John F. Due, Professor of Economics, University of Illinois (Taxation With Representation)

States that the proposed tax should help discourage consumption and facilitate shifting to other fuels.

Mrs. Paige K. Moore, Houston, Texas

Supports termination of the entitlements program and opposes tax because believes deregulation would result in a higher price which would act as an incentive to draw capital into further development.

*Public Citizen's Tax Reform Research Group, Robert M. Brandon and William Pietz (May 18)**

Believe it crucial that any wellhead tax absorb all the difference between the price of old oil and the price of new oil. State that any attempt to reduce this tax directly or through plowback provisions would amount to providing pure windfalls to energy producers.

Recommend rejection of "plowback provisions" for any new taxes on energy companies. Contend that energy companies have sufficient cash to obviate the need for additional incentives.

VI. Tax on Industrial Use of Oil and Gas

Hon. Harold L. Volkmer, Member of Congress (Missouri)

Strongly supports tax with its necessary exemptions for various products and also the credit for alternative energy sources.

Southern California Edison Company

Asks that California utilities should be exempt from the oil use tax provision because its purpose is to promote conversion to coal. Believes that the tax would generate revenue rather than regulate and thus be contrary to its purpose.

*Inadvertently left out of Part One of the Summary.

National Cannery Association

Feels the tax on petroleum products would effectually be double taxation for industrial users because the products' prices would already be inflated by the oil equalization tax.

Freeport Minerals Company, William J. Byrne, Jr., Vice President

Urges that sulphur mined by the Frasch method be exempted from the oil and natural gas consumption taxes because sulphur is a key raw material and vital to the industrial production of fertilizers, sulphuric acid and numerous essential products. Contends that the Frasch method consumes less energy in producing the sulphur than is available in the sulphur produced. Suggests that it would be inconsistent to impose a tax where conversion to other fuel sources is wasteful and infeasible.

New England Electric System, R. Leigh Fitzgerald, Financial Vice President

Urges adoption of an excess qualified replacement investments carry-back-carryforward provision, expansion of the qualified replacement investments definition, clarification of the meaning of electrical generating property, and inclusion of a provision making any excess tax deductible as a business expense.

Motor Vehicle Manufacturers Association of the United States, Inc.

Opposes tax because it substitutes user taxes for price decontrol without making additional revenues available for exploration and development, and it fails to distinguish between use as boiler fuels versus use as process fuels. Notes that some processes have no alternative fuels and would be penalized. Feels the program is ill-conceived, and that it would be ineffective and discriminatory.

American Mining Congress, Dennis P. Bedell, Chairman, Tax Committee

Expresses concern that the proposal provides no incentive for development of new and additional energy supplies, as would result from decontrol. Feels that the marketplace is a better means by which to achieve realistic pricing than an artificial system of taxation, and favors price decontrol with appropriate phase-in periods to lessen the immediate impact.

Machinery and Allied Products Institute, Charles Stewart, President

Considers the tax defective because of high administrative costs, increased cost of producing goods, and the fact that foreign producers will not be subject to the levy. Recommends exemptions for industries which have no alternative fuels and increase investment tax credit or relief provision for eligible expenditures.

The Fertilizer Institute, Edwin M. Wheeler, President

Requests amendment of the exempted uses of the tax to include agricultural production, processing and distribution including, but not limited to, crop or seed drying, food and fiber processing and distribution, irrigation pumping, fertilizer and agricultural chemical production.

Glass Packaging Institute

Asks for an exemption for the glass manufacturing process from the taxes because at present no alternative fuel can be used with the same energy efficiency without complete redesign of equipment, questionable adherence to environmental standards and reduction in product quality. Suggests substantial and long-term research needed before conversion to coal or electricity is economically and environmentally sound. Contends that conservation would not be furthered by the tax because conversion is not possible.

Land O'Lakes, Inc., Ralph Hofstad, President

Urges expansion of the exemptions to include milk product drying and other food processing and packaging operations that require natural gas and for which alternative fuels are inadequate.

John F. Due, Professor of Economics, University of Illinois (Taxation with Representation)

Considers the goal of encouraging conversion away from oil and gas by industry and utilities to be desirable.

Mrs. Paige K. Moore, Houston, Texas

Opposes users' tax as failing to spur production and resulting in higher consumer prices.

VII. Coal Conversion Incentives*National Cannery Association*

Doubts that the additional 10-percent tax credit would be adequate for many firms to convert to coal due to the magnitude of investment or to the location. Feels that the operation of a free market will result in a shift to coal where feasible and to a desirable extent. Suggests that the availability of coal-fired boilers and the rate at which coal production and transportation facilities can be expended are serious limitations to coal conversion.

National Coal Association

Expresses concern that the proposal does not provide direct incentives to encourage investment because of large capital requirements. Suggests that increasing coal's depletion allowance to at least 15 percent, placing it on a par with oil shale, would be a great encouragement.

Motor Vehicle Manufacturers Association of the United States, Inc.

Suggests that time frame may be insufficient to reach fully operational service, and that the deadline should be extended to January 1, 1985.

American Mining Congress, Dennis P. Bedell, Chairman, Tax Committee

Supports investment credit for business energy property to increase use of coal directly and by the production of synthetic gas from coal and the liquefaction of coal.

National Coal Association, Carl E. Bagge, President

Recommends five-year amortization for deep-mining coal equipment, coal slurry pipelines and machinery to process coal into synthetic

fuels in order to stimulate coal production and use. Advocates providing a 12-month write-off for new coal mining equipment (as in H.R. 4497); 12-month amortization of conversion facilities with price support program for synthetic fuels (as in H.R. 4178); and extending the cut-off point for depletion purposes for coal used in making low-pollutant synthetic fuels (as in H.R. 4556).

New England Electric System, R. Leigh Fitzgerald, Financial Vice President

Suggests permitting an election to depreciate over the remaining life of the plant units or to amortize over a 60-month period. Also, that only 50 percent of the costs subject to the election would qualify for the investment credit.

*Public Citizens' Tax Reform Research Group, Robert M. Brandon and William Pietz (May 18)**

Consider the proposed tax offset against the user tax for coal conversion to make sense and not to represent a windfall as do other business tax credits.

VIII. Energy Development Tax Incentives

A. Geothermal deductions

Hon. John J. McFall, Member of Congress (California)

Recommends the same tax deduction of intangible drilling and development costs for the geothermal industry as for the oil and gas industry. Emphasizes that this alone will not be sufficient to attract adequate amounts of capital and a deduction to encourage new investment is needed.

Promotes H.R. 6147, which provides for 25 percent deduction from gross income generated by geothermal property. Notes that the deduction would be restricted to exclusively geothermal energy firms and domestic sources. Maintains that the bill would further induce immediate development since the deduction is scheduled to automatically expire ten years after its enactment and the deduction cannot be taken until income from the sale of geothermal energy is realized.

Machinery and Allied Products Institute, Charles Stewart, President

Feels the incentives are meager and the minimum tax should be repealed because it works at cross purposes to national policy and the drilling cost deductions would be more effective in attracting capital if they were not included in the minimum tax base.

Magma Power Company, Joseph Aidlin, Vice President

Believes that extensive geothermal resources exist which could make a major contribution to our energy supply. Feels that the discrepancy between the Ninth Circuit Court of Appeals' decision and the Treasury Department's attitude regarding allowing intangible deductions and depletion for geothermal resources should be resolved. Asserts that the allowance of such deductions would serve as an inducement to expend the necessary capital for development.

*Inadvertently left out of Part One of the Summary.

Natomas Co.

Indicates that the controversy over the classification of a geothermal well as a gas well for tax purposes has not abated. Recommends inclusion of H.R. 7138 in the energy legislation. This would grant a 22-percent deduction from gross income similar to the depletion allowance and a deduction for intangible drilling and development costs to all geothermal energy.

B. Minimum tax on intangible drilling costs for oil and gas wells*Common Cause, David Cohen, President*

Strongly opposes this provision as unnecessary because the taxpayer is not penalized for nonproductive wells and individuals may still use the depletion allowance. Believes weakening the minimum tax would be a tax policy error.

David M. Brown, M.D., Golden Valley, Minnesota

Believes small independent producers should be encouraged to seek new sources of oil and gas by receiving preferential tax benefits.

Donald E. McMillen, Professional Engineer, Spring, Texas

Does not support selective application of incentives to independent producers because contends it differentiates on the basis of company size and does not offer encouragement to exploration activities.

*Public Citizen's Tax Research Group, Robert M. Brandon and William Pietz (May 18)**

Feel that the most ill-advised provision of the energy package is the proposal that wealthy independent oil drillers pay no minimum tax on income sheltered by drilling writeoffs. Consider the intangible expense deduction, rather than regular capitalization of such expenses, to be one of the most unfair provisions of the tax Code. Argue that the proposal to remove the minimum tax on such deductions will have minimal effect on increasing oil production. Suggest that if the intention is to treat the corporations and individuals alike, then the minimum tax provision should be extended to corporations rather than remove it for the individual independents, who also have retained the percentage depletion allowance. Dispute the "negative cash flow" argument of the drillers, as they are treating the cost of drilling successful wells the same as dry wells.

IX. Other Energy-Related Tax Proposals**A. Railroad cars and equipment***GATX Corporation, Chicago*

Recommends allowance of an additional 10 percent investment credit for new railroad equipment used by a common carrier or other qualified user and for coal shipping equipment used to transport coal within the U.S. Believes this would enhance the conversion to the use of coal.

*Inadvertently left out of Part One of the Summary.

B. Windfall profits tax on oil and gas

Hon. James Abdnor, Member of Congress (South Dakota)

Suggests stipulation requiring producers to plowback increased profits into production to prevent windfall profits resulting from decontrol.

National Cannery Association

Believes that individual and corporate income tax combined with State income taxes will capture much of the windfall profit in the form of tax revenues. Suggests that a special tax could be added to the tax code to assure that windfall profits will not occur.

C. Other proposals

Hon. James Abdnor, Member of Congress (South Dakota)

Expresses disappointment that plan neglects to implement research in the development of agricultural products for energy purposes such as the conversion of grain products to fuels.

American Council for Capital Formation, Richard W. Rahn

Recommends a faster write-off for depreciation of pollution abatement equipment, allowing 100 percent during the first year if deemed desirable. Feels this would allow firms to recover capital investments and allocate resources more effectively. Suggests a 20 percent energy research and development credit to reduce the risk and uncertainty and stimulate inventive genius.

National Association of Recycling Industries, Inc.

Urges the committee to take action to extend the investment tax credit to machinery and equipment purchased for industrial facilities for recycling of metals, paper, textiles and rubber.

*Public Citizens' Tax Reform Research Group, Robert M. Brandon and William Pietz (May 18)**

Urge rejection of any proposed tax credit for recycling as wasteful. Note that such recycling tax credits are opposed by most conservation groups as unneeded and a waste of revenues. Feel that distortions in the current tax structure should be eliminated by repealing depletion on hard minerals, rather than by adding new tax complexities. Point out that in 1976 the National Commission on Supplies and Shortages recommended that the depletion allowance on hard minerals should be repealed and that new tax subsidies for consumption of recycled materials should not be enacted.

Ask rejection of any proposals to give the utilities more tax relief, as unneeded.

Propose that the existing depletion and intangible deductions for new oil and gas be eliminated, since the higher price for such oil and gas is sufficient incentive. Maintain that unless this is done, consumers of such oil and gas will be paying a subsidy to the companies.

*Inadvertently left out of Part One of the Summary.

X. Comments on Use of Energy Tax Revenues

*American Association of State Highway and Transportation Officials,
Henrik E. Stafseth, Executive Director*

Recommends that portions of the initial 5-cent standby gasoline tax be set aside for more fuel efficient transportation programs. Also feels that a portion should be available for energy research and development and at least 1 cent should be rebated directly to the States as compensation for their reduced revenues. Encourages creation of a mass transportation trust fund financed by the 10-percent excise tax on buses.

National Association of Manufacturers

Suggests that if conservation taxes are imposed the revenues should be directed to the development of new energy resources, not to such general uses as welfare reform or general rebates.

Southern California Edison Company

Favors the appropriation of a minimum of 50 percent of the crude oil equalization tax revenues to construct demonstration plants to promote different technologies which could produce substitute motor vehicle fuel from other sources.

National Asphalt Pavement Association

Recommends rebating to the contractor the increased cost of asphalt on fixed-price contracts entered into prior to the implementation of any tax plan which results in an increased asphalt price.

Michael D. Intriligator, Professor of Economics, UCLA

Suggests reconsideration be given to the National Energy Dividend proposed in December 1973. This called for imposition of taxes on all final energy uses. Proposes funds would be distributed in two ways: 5 percent allocated to research and development and 95 percent returned to the public with all adults with adjusted gross income less than \$15,000 receiving a per capita share.

XI. Administration's Non-Tax Legislative Proposals

A. Van Pooling

The Tennessee Valley Authority Ride-Sharing Program

Shows the conservation success of their program and an additional subsequent increase in car pooling as a result.

B. Building Conservation

*United States League of Saving Associations, Arthur B. Edgeworth,
Director*

Hopes the balanced approach of the President's recognition that different income strata require different incentives, such as grants for low-income persons and encouraged lending to modest-income families, will be approved.

Owens-Illinois, Inc.

Suggests strengthening the direct grants for solar energy research by a provision that such grants will not be considered gross income for Federal tax purposes.

C. Coal conversion regulatory policy*National Coal Association, Carl E. Bagge, President*

Contends that the necessary increase in coal production faces formidable obstacles of air quality requirements, restrictive surface mining regulations and proposed health and safety rules. Suggests amending the Code to allow the establishment of a tax-exempt irrevocable trust for black lung claims.

D. Oil and gas pricing policies*Machinery and Allied Products Institute, Charles Stewart, President*

Prefers the Administration to move toward decontrol of interstate gas without extending Federal jurisdiction to intrastate tax. Feels that in a shortage situation certain users should have priority, but all users must eventually be exposed to market prices. Hopes Congress acts on the question of phased decontrol of natural gas with the same expediency it showed in enacting the Emergency Natural Gas Act of 1977.

National Association of Manufacturers

Urges removal of price controls to let the market allocate the resources for energy.

Idaho Oil Company, Leon D. Glasscock, Owner

Asks consideration be given to the plight of small independent operators and stripper wells in adopting an energy policy. Contends that plowback provisions are impracticable for the small operator and the frozen prices are punitive in nature.

XII. Other Items*Federal Trade Commission*

Recommends FTC be consulted when any product or material standard adopted from privately-developed standards is relied upon in implementing the proposed Act. Suggests requirements be promulgated for the disclosure of energy saving product claims and marketing and warranty practices for energy saving devices and solar equipment. Asks that FTC be authorized to require additional disclosures for any tax or rebate imposed on automobiles.

Feels that public utilities should not be required to offer installation of energy-saving measures, but should be allowed to do so by choice as a direct competitor of existing businesses.

Air Transport Association of America, Paul R. Ignatius

Hopes the Committee will support a bill now pending before the House Public Works and Transportation Committee which would authorize collection of a surcharge from airline users to provide the

funds needed to replace or retrofit the engines of older aircraft at a considerable fuel savings. Proposes that the surcharge would be offset by a corresponding reduction in the excise tax on air transportation users to avoid a rate increase.

Believes a broad new research and development program is urgently needed, and that finding a substitute fuel source to power internal combustion engines requires priority attention.

Superior Oil Company

Requests the adoption of legislation providing that investments in property situated on or used exclusively in connection with the Outer Continental Shelf made by foreign corporations subsequent to the Tax Reform Act of 1969 will not be treated as dividends to their U.S. shareholders.

National Business Aircraft Association, Inc., John H. Winant, President

States that governmental action should promote and mandate the use of alternative fuels for non-aviation power sources to conserve resources until non-petroleum fuels can be developed for aviation.

John F. Due, Professor of Economics, University of Illinois (Taxation With Representation)

Supports improvement and extension of existing mass transportation services. Feels that by altering regulatory and tax policies in freight transport such as piggybacking, artificial route and commodity restrictions, and eliminating duplicated services, energy could be conserved.

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